



VF 3-6-03



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

\*\*\* ACP 3/3/2003  
**OMB APPROVAL**  
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**FACING PAGE**  
**Information Required of Brokers and Dealers Pursuant Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING January 1, 2002 AND ENDING December 31, 2002  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
Industry Savings Plans, Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
5990 Greenwood Plaza Boulevard #325

**OFFICIAL USE ONLY**  
FIRM I.D. NO.

(No. and Street)  
Greenwood Village, Colorado 80111  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Joanne E. Ashton (303) 220-8500  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Hein + Associates, LLP  
(Name - if individual, state last, first, middle name)  
717 17th Street, #1600, Denver, Colorado 80202  
(Address) (City) (State) (Zip Code)

**CHECK ONE:**

- ☒ Certified Public Accountant
- ☐ Public Accountant
- ☐ Accountant not resident in United States or any of its possessions.

**PROCESSED**

**FOR OFFICIAL USE ONLY**

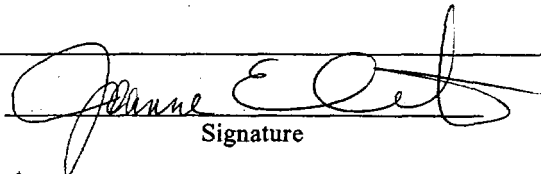
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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3-7-03

## OATH OR AFFIRMATION

I, Joanne E. Ashton, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Industry Savings Plans, Inc., as of December 31, 2002, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

  
Signature

Secretary/Treasurer/Financial Operations  
Title Principal

  
Notary Public  
My commission expires 5-13-2006

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

***Industry Savings Plans, Inc.***  
**(A Wholly-owned Subsidiary of**  
**Preferred Financial Corporation)**  
**Financial Statements and Supplemental Schedules**  
**For the Year Ended December 31, 2002**  
**Independent Auditors' Report and**  
**Supplemental Report on Internal Control Structure**

**INDUSTRY SAVINGS PLANS, INC.**  
(A Wholly-owned Subsidiary of Preferred Financial Corporation)

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## HEIN + ASSOCIATES LLP

*Certified Public Accountants and Consultants*

Denver • Houston • Dallas • Southern California

### INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Industry Savings Plans, Inc.  
Englewood, Colorado

We have audited the accompanying statement of financial condition of Industry Savings Plans, Inc. (a wholly-owned subsidiary of Preferred Financial Corporation), as of December 31, 2002, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Industry Savings Plans, Inc. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III and IV is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HEIN + ASSOCIATES LLP

Denver, Colorado  
January 31, 2003



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an association of independent  
accounting firms throughout  
the world

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**INDUSTRY SAVINGS PLANS, INC.**  
**(A Wholly-owned Subsidiary of Preferred Financial Corporation)**

**STATEMENT OF FINANCIAL CONDITION**  
**DECEMBER 31, 2002**

**ASSETS**

**ASSETS:**

Cash and cash equivalents	\$ 206,055
Investment	3,300
Commissions receivable	1,786
Other receivables	<u>90</u>

**TOTAL ASSETS**

**\$ 211,231**

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**LIABILITIES:**

Accounts payable	\$ 4,100
Accrued commissions payable	1,429
Payable to affiliate	<u>8,878</u>
Total liabilities	<u>14,407</u>

**STOCKHOLDER'S EQUITY:**

Common stock, \$1 par value; 50,000 shares authorized, 25,000 shares issued and outstanding	25,000
Additional paid-in capital	68,191
Retained earnings	<u>103,633</u>
Total stockholder's equity	<u>196,824</u>

**TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY**

**\$ 211,231**

*See accompanying notes to these financial statements.*

**INDUSTRY SAVINGS PLANS, INC.**  
**(A Wholly-owned Subsidiary of Preferred Financial Corporation)**

**STATEMENT OF INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

**REVENUES:**

Commissions	\$ 77,866
Interest and dividends	<u>2,335</u>
	80,201

**EXPENSES:**

Commissions	57,269
License fees	13,843
Other operating expenses	10,297
Professional fees	<u>4,273</u>
	85,682

<b>LOSS BEFORE INCOME TAXES</b>	(5,481)
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<b>INCOME TAXES</b>	<u>1,056</u>
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<b>NET LOSS</b>	<u><u>\$ (4,425)</u></u>
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*See accompanying notes to these financial statements.*

**INDUSTRY SAVINGS PLANS, INC.**  
**(A Wholly-owned Subsidiary of Preferred Financial Corporation)**

**STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>COMMON STOCK</u>	<u>ADDITIONAL PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL STOCKHOLDER'S EQUITY</u>
BALANCES, January 1, 2002	\$ 25,000	\$ 68,191	\$ 108,058	\$ 201,249
Net loss	<u>—</u>	<u>—</u>	<u>(4,425)</u>	<u>(4,425)</u>
BALANCES, December 31, 2002	<u>\$ 25,000</u>	<u>\$ 68,191</u>	<u>\$ 103,633</u>	<u>\$ 196,824</u>

*See accompanying notes to these financial statements.*



**INDUSTRY SAVINGS PLANS, INC.**  
(A Wholly-owned Subsidiary of Preferred Financial Corporation)

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2002**

**OPERATING ACTIVITIES:**

Net loss	\$ (4,425)
Adjustments to reconcile net loss to net cash from operating activities:	
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Commissions receivable	2,435
Other receivables	565
Increase (decrease) in:	
Accounts payable	(18,963)
Accrued commissions payable	<u>(4,022)</u>
Net cash used in operating activities	<u>(24,410)</u>

**NET DECREASE IN CASH AND CASH EQUIVALENTS** (24,410)

**CASH AND CASH EQUIVALENTS, beginning of year** 230,465

**CASH AND CASH EQUIVALENTS, end of year** \$ 206,055

**SUPPLEMENTAL INFORMATION -**

    Cash paid to Parent for income taxes \$ 18,456

*See accompanying notes to these financial statements.*

**INDUSTRY SAVINGS PLANS, INC.**  
**(A Wholly-owned Subsidiary of Preferred Financial Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Organization and Nature of Operations – Industry Savings Plans, Inc. (the “Company”) was incorporated in Colorado in 1965. The Company is a registered broker and dealer in securities under the Securities Exchange Act of 1934 and operates in one industry segment, the sale of mutual funds and variable annuities. The Company is a wholly-owned subsidiary of Preferred Financial Corporation (the “Parent”), which is a wholly-owned subsidiary of Health Care Service Corporation (HCSC).

Cash Equivalents – The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2002, cash equivalents include \$118,920 invested in a money-market mutual fund.

Investments – Marketable securities are valued at market value and securities not readily marketable are valued at fair value as determined by management.

Income Taxes – The Company provides for deferred income taxes under the liability method. The Company has no temporary differences between the book and tax bases of its assets and liabilities.

The operating results of the Company are included in the consolidated income tax returns filed by HCSC and its affiliates. HCSC’s policy is to allocate income tax liabilities or benefits to the Company on a separate return basis as net income or losses are incurred.

Commission Income and Expense – The Company earns commissions solely from the sale of shares of mutual funds and variable annuities through a network of registered representatives. The registered representatives receive a commission, which generally varies from 80% to 90% of the commission earned by the Company.

Use of Estimates – The preparation of the Company’s financial statements in conformity with generally accepted accounting principles requires the Company’s management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Actual results could differ from those estimates.

**2. RELATED PARTY TRANSACTIONS:**

The Company has no full-time employees and shares facilities with its Parent and its affiliates.

The payable to affiliates consist of \$150 payable to its Parent and the Company’s current income tax liability payable to HCSC of \$8,728 (see Note 1).

**INDUSTRY SAVINGS PLANS, INC.**  
**(A Wholly-owned Subsidiary of Preferred Financial Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

3. **MINIMUM NET CAPITAL REQUIREMENT:**

Pursuant to the Uniform Net Capital requirements of the Securities and Exchange Commission under Rule 15c3-1, the Company is required to maintain a minimum net capital balance and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1, as defined under such rule. At December 31, 2002, the Company had net capital of \$182,731, which was \$157,731 in excess of its required net capital of \$25,000 and the ratio of aggregate indebtedness to net capital was .08 to 1.

## SCHEDULE I

### INDUSTRY SAVINGS PLANS, INC.

(A Wholly-owned Subsidiary of Preferred Financial Corporation)

#### COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1 OF THE SECURITIES AND EXCHANGE COMMISSION AS OF DECEMBER 31, 2002

##### COMPUTATION OF NET CAPITAL:

Total stockholder's equity (from statement of financial condition)	<u>\$ 196,824</u>
Total stockholder's equity qualified for net capital	\$ 196,824
Deductions:	
Nonallowable assets:	
Other receivables	90
Common stock (NASDAQ stock)	3,300
Haircuts on securities - money market funds	<u>10,703</u>
Net capital	<u>\$ 182,731</u>

##### COMPUTATION OF AGGREGATE INDEBTEDNESS -

Total aggregate indebtedness	<u>\$ 14,407</u>
Percentage of aggregate indebtedness to net capital	<u>8%</u>

##### COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS:

Minimum net capital required (6-2/3% of aggregate indebtedness)	<u>\$ 960</u>
Minimum dollar net capital requirement	<u>\$ 25,000</u>
Net capital requirement (greater of above amounts)	<u>\$ 25,000</u>
Excess net capital	<u>\$ 157,731</u>

**SCHEDULE II**

***INDUSTRY SAVINGS PLANS, INC.***

**(A Wholly-owned Subsidiary of Preferred Financial Corporation)**

**COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS  
UNDER RULE 15c3-3 OF THE SECURITIES AND EXCHANGE COMMISSION  
AS OF DECEMBER 31, 2002**

**CREDIT BALANCES:**

Customer security accounts	\$ -
Debit balances	<u>-</u>

Excess of total credits over total debits	<u><u>\$ -</u></u>
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**RESERVE COMPUTATION:**

Amount required to be on deposit in the reserve bank account (105% of the excess of total credits over total debits)	\$ -
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Amount held on deposit in the reserve bank account	<u>-</u>
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Amount of deposit in excess of requirement	<u><u>\$ -</u></u>
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**SCHEDULE III**

***INDUSTRY SAVINGS PLANS, INC.***

**(A Wholly-owned Subsidiary of Preferred Financial Corporation)**

**INFORMATION RELATING TO POSSESSION OR  
CONTROL REQUIREMENTS UNDER RULE 15c3-3  
OF THE SECURITIES AND EXCHANGE COMMISSION  
AS OF DECEMBER 31, 2002**

1. Customers' fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by respondent within the time frame specified under Rule 15c3-3.

\$0

Number of items

None

2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3.

\$0

Number of items

None

**SCHEDULE IV**

***INDUSTRY SAVINGS PLANS, INC.***

**(A Wholly-owned Subsidiary of Preferred Financial Corporation)**

**STATEMENT PURSUANT TO RULE 17a-5(d)(4)  
OF THE SECURITIES AND EXCHANGE COMMISSION  
AS OF DECEMBER 31, 2002**

There was no material difference between the computation of net capital pursuant to Rule 15c3-1 and the computation for determination of reserve requirements under Rule 15c3-3 included in this report and the computations included in the Company's Form X-17A-5 (FOCUS Report, Part IIA), as of December 31, 2002.



## HEIN + ASSOCIATES LLP

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### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

Board of Directors  
Industry Savings Plan, Inc.

Dear Sirs:

In planning and performing our audit of the financial statements and supplemental schedules of Industry Savings Plan, Inc. (the Company) for the year ended December 31, 2002, on which we have issued our report dated January 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission, we have made a study of the practices and procedures followed by the Company including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e). We did not review the practices and procedures followed by the Company in complying with the requirements in making quarterly securities examinations, counts, verifications and comparisons as required by Rule 17a-13, because the Company did not hold any securities at December 31, 2002, or during the year then ended. We did not review the practices and procedures followed by the Company in complying with the requirements for prompt payment for securities under Section 8 of Regulation T of the Board of Governors of the Federal Reserve System and in obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3, because the Company does not carry security accounts for customers.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.



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Board of Directors  
Industry Savings Plans, Inc.  
Page 2

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2002 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and should not be used for any other purpose.

Yours truly,

  
HEIN + ASSOCIATES LLP

Denver, Colorado  
January 31, 2003